

## **Free-response/problem**

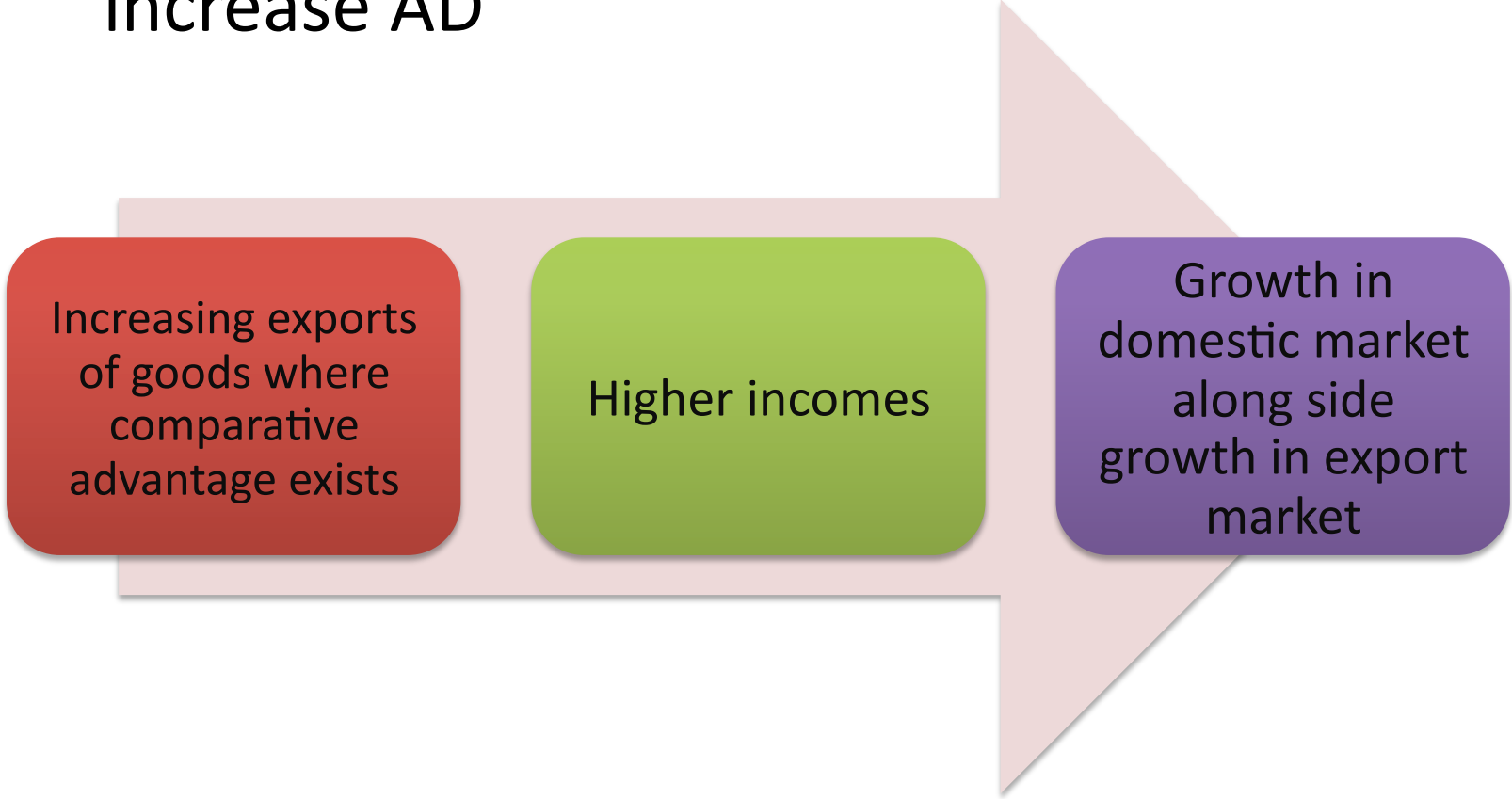
- Explain the processes and transmission mechanisms that lead to economic growth and development in each of the following theories:
  1. Harrod-Domar model
  2. Structural change/dual sector model

# Growth and Development Strategies

# Growth Strategies

## Export-led

- Export-led Growth to increase AD



Increasing exports  
of goods where  
comparative  
advantage exists

Higher incomes

Growth in  
domestic market  
along side  
growth in export  
market

# Growth Strategies

## Export-led

Require:

- Liberalized trade to gain access to markets
- Liberalized capital flows so FDI can take place
- Floating exchange rate
- Investment in infrastructure especially ports and transport
- Minimal government regulation and interventions



## Growth Strategies

### Export-led: Pros and Cons

#### Focus on Primary Products

- Historical trend of falling prices
- Increasing trend of protectionism

#### Focus on Manufactured Products

- Advantage of low labor cost taken
- State direction and protection of “infant industries”
- Protectionism can emerge as problem
- Possible issue of income inequality

# Growth Strategies

## Import Substitution

- Focus on producing goods domestically instead of importing
- Conditions:
  - Government selects focus on particular good e.g. clothing
  - Subsidies provided
  - Tariffs or quotas imposed



# Growth Strategies

## Import Substitution

### Advantages

Protects jobs, culture and curbs power of MNC

### Disadvantages

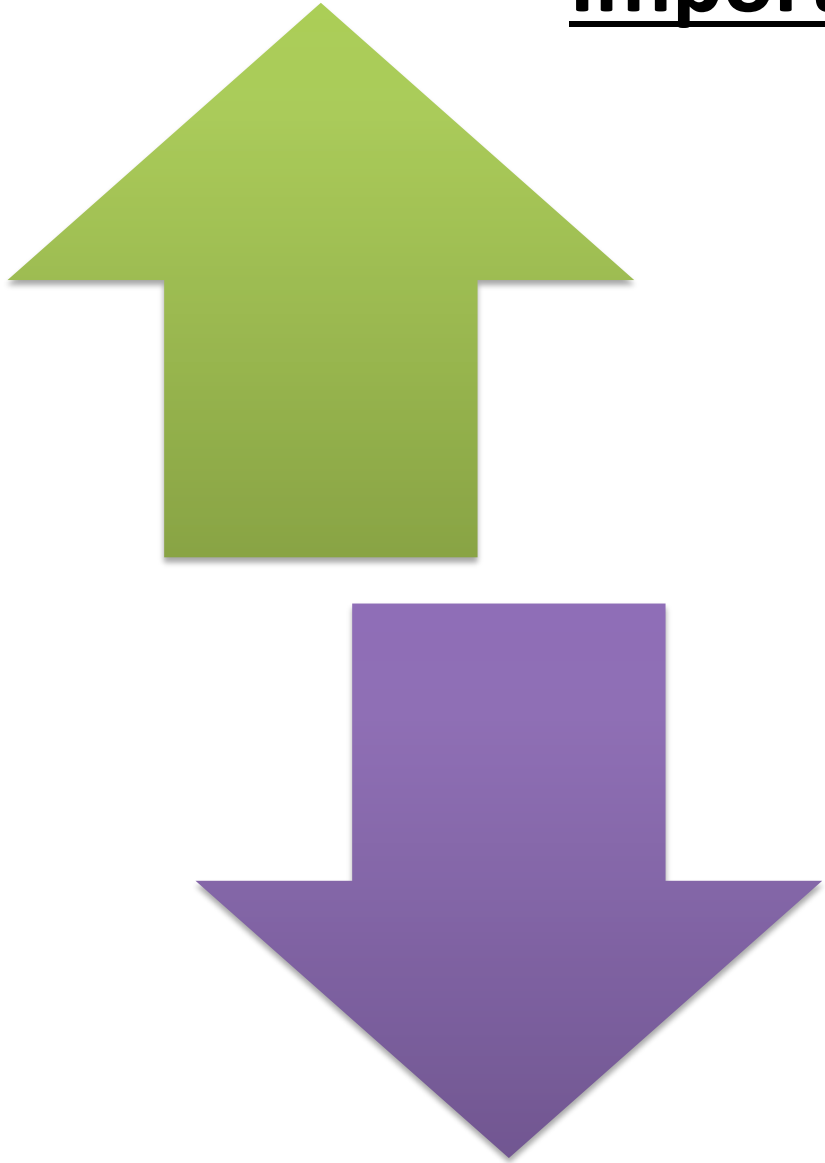
LR lose of job creation

No benefits of comparative advantage

Inefficient domestic industries

Inflation due to supply constraints

Retaliatory protectionism

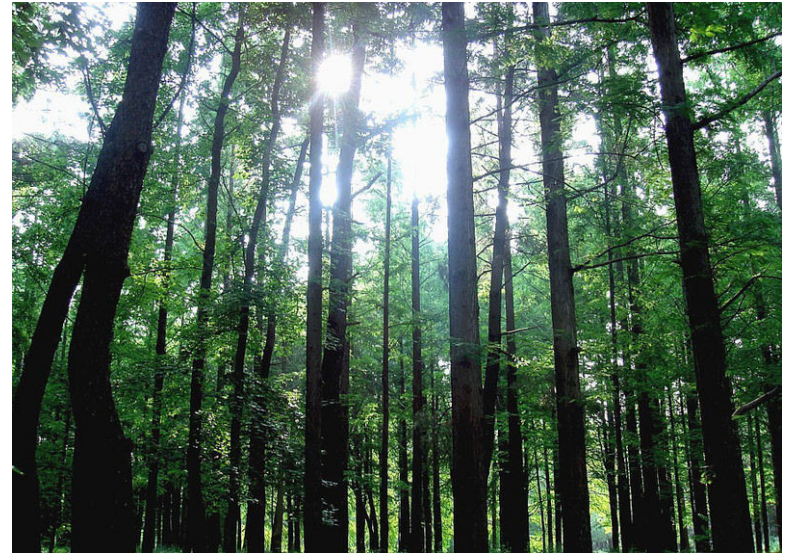


# Commercial Loans and Development

- Foreign Direct Investment (FDI): long-term investment by private Multinational Corporations (MNCs)

Motivated by

- Access to rich natural sources
- Markets
- Low labor costs
- Relaxed government regulation and incentives





# Commercial Loans and Development: FDI

## Advantages of FDI

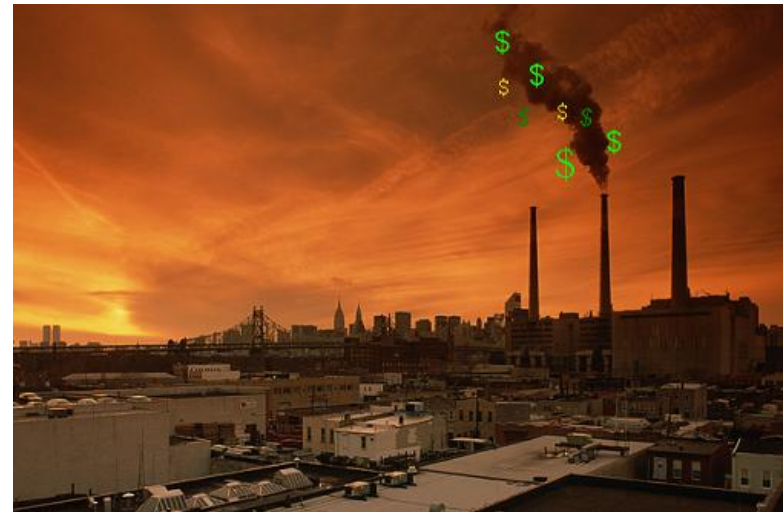
- Fills domestic savings gap
- Provision of employment and training
- Access to technology and research and development
- Multiplier effect
- Host government gains revenue through taxes
- Improved infrastructure



# Foreign Direct Investments

## Disadvantages of FDI

- MNCs may use their own management and only employ low-skilled workers
- MNCs too powerful and win tax breaks from developing nations and ignore organizations like the WTO
- Exploit lax environment laws
- Exploit natural resources with profits expatriated
- Exploit labor



# Commercial Loans and Development

- Micro-credit – providing capital to small scale business projects e.g. Grameen Bank
- FairTrade organizations allow farmers and small manufacturers use a FairTrade Logo which international consumers recognize as meeting certain standards

